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September 18, 1998

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, NW  
Washington DC 20554

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SEP 21 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: Direct Case of GTE; CC Docket 98-79.

Dear Ms. Salas:

Attached are the original and four copies of the response of NorthPoint Communications to the Direct Case of GTE; CC Docket 98-79.

Sincerely,

Steven Gorosh  
Vice President & General Counsel

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**Before the  
Federal Communications Commission  
Washington DC 20554**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the matter of )

GTE Telephone Operating Companies )

GTOC Tariff FCC No. 1 )

GTOC Transmittal No. 1148 )

CC Docket No. 98-79

**NORTHPOINT COMMUNICATIONS, INC.  
RESPONSE TO DIRECT CASE OF GTE**

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Federal Communications Commission  
Washington DC 20554**

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**NORTHPOINT COMMUNICATIONS, INC.  
RESPONSE TO DIRECT CASE OF GTE**

NorthPoint Communications, Inc., pursuant to the Order Designating Issues for Investigation in this matter,<sup>1</sup> hereby files its response to GTE's direct case. While it appears to be consistent with Commission precedent to treat the service as interstate, NorthPoint reiterates its strong concern that the Commission should require GTE to impute the loop and collocation costs that GTE imposes on its competitors. Otherwise, NorthPoint and other CLECs providing DSL service will continue to be subject to an existing "price squeeze" under which GTE's charges to NorthPoint for the unbundled network elements necessary to provide competitive DSL service are more than the full retail charge of GTE's service. Obviously, facilities-based competition cannot exist where it costs NorthPoint more for a piece of GTE's DSL service than it costs retail customers for the entire service. In order to ensure that broadband competition has a chance to develop, and ultimately ensure lower costs and greater choice, the Commission should

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<sup>1</sup> GTE Telephone Operating Companies, GTOC Tariff FCC No. 1, GTOC Transmittal No. 1148, Order Designating Issues for Investigation, CC Docket No. 98-79 (CCB August 20, 1998) ("Designation Order").

require GTE to impute the costs of collocation and loops into its federal tariffs. In the alternative, if the Commission is not willing to require imputation, it should defer to the states consideration of both GTE's wholesale and retail DSL charges so that the states may properly address price squeeze issues.

On May 15, 1998, GTE filed Transmittal No. 1148, with proposed rates, terms and conditions for Asymmetrical Digital Subscriber Line (ADSL) service. On May 22, NorthPoint Communications, Inc. (NorthPoint) filed a Petition to Reject, or to Suspend and Investigate the proposed tariff. NorthPoint argued that GTE's proposed tariff did not appear to cover all relevant costs, and would create a price squeeze, and that jurisdictional issues complicate the analysis of the proposed tariff. On August 20, 1998, the Chief, Common Carrier Bureau issued an "Order Designating Issues for Investigation" to determine whether GTE's DSL service offering should be tariffed at the federal or state level.<sup>2</sup>

It appears that GTE's ADSL service is designed to offer a dedicated data connection between an end user and an Internet service provider (ISP). An end user using DSL service for Internet access to an ISP may access a local web site, a non-local web site in the same state, and/or a web site in another state or country. Because of the worldwide nature of the web, it is likely that a majority of web sessions will include access to a web site in a different state or country, thereby rendering the call interstate in nature. In addition, because the ADSL line is dedicated, and flat-rated, it makes sense to have it tariffed in either the state or federal jurisdiction, but not both. In the past, the Commission has asserted jurisdiction over calls to information service providers, largely as a way of

preserving a competitive, unregulated environment for ISPs.<sup>3</sup> There has been some confusion about NorthPoint's position on jurisdiction and tariffing, and NorthPoint wishes to clarify that it has no objection to a Commission decision that ADSL is an interstate service.

There are practical consequences to federal tariffing, however, that the FCC should consider in making its decision in this proceeding. In its initial petition to reject, or suspend and investigate, NorthPoint noted that: (1) the proposed tariff would create a price squeeze because the federally tariffed ADSL price was lower than the sum of the prices of the inputs (such as loops and collocation) required for CLECs to offer competing DSL service; and (2) the fact that states govern the input pricing while the ADSL product was tariffed at the federal level would create challenges for federal and state policymakers in detecting and preventing price squeezes.

In its direct case, GTE argues that "if state and federal regulators do their jobs, there can be no price squeeze." GTE Direct Case at 25. NorthPoint agrees with this statement, and simply suggests that federal and state regulators need to give some thought to this challenge, and to do so quickly, before ILEC price squeezes choke their CLEC competitors.

Price squeezes are a risk whenever CLECs must obtain unbundled network elements from ILECs in order to offer competing service. Price squeezes occur when the retail tariff rates are less than the cost to CLECs of obtaining the unbundled network

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<sup>2</sup> Designation Order at para. 12.

<sup>3</sup> See, e.g., Petition for Emergency Relief and Declaratory Ruling Filed by BellSouth Corp., 7 FCC Rcd 1619 (1992) (Georgia Memory Call Decision). In that decision, in the context of examining who has jurisdiction when a voice mail service is accessed from out of state, the FCC asserted jurisdiction based on the ultimate termination of the call, rather than accepting the theory that there are actually two calls.

elements required to compete plus any costs for competitively provided components, such as retailing costs.

GTE's proposed rates create a real price squeeze that threatens to throttle DSL competition before it starts. GTE manages to price this low because it fails to impute the UNE charges that CLECs must pay, including loop, collocation, and transport.

GTE's retail charges are as low as \$30 per month. By contrast, in order to compete in California, a DSL CLEC incurs the following costs:

It must pay GTE \$19 per month for a loop and cross connect;

It must pay GTE approximately \$50,000 per collocation cage plus \$1,644 per month for collocation and power;

It must pay GTE or an alternative carrier for transport from the central office to a regional node;

It must recover the costs of its DSL equipment, retailing costs and overhead.

Without even taking into account the costs of the CLEC DSL equipment, GTE's full retail rate is less than the price it charges CLECs for the loops, collocation and transport necessary to provide DSL service. That is a price squeeze and must be remedied immediately to address the Commission's oft-stated concern for broadband alternatives.

For an equally efficient competitor to compete, GTE's retail price must equal or exceed the sum of the prices that GTE charges for xDSL-related UNEs. There are at least two ways to achieve this result. First, the FCC could require that ILEC DSL services be federally tariffed, and impose an imputation rule that ensures that GTE's rates include charges for loop, collocation and transport elements, imposed on CLEC competitors, in

addition to charges that recover GTE's additional equipment and overhead costs.


Alternatively, the FCC could defer to the states, and require ILEC DSL services to be tariffed at the state commissions, which have access to the underlying price information for unbundled network elements. Either approach improves the ability of federal or state decisionmakers to meet their goals of promoting competition, by detecting and preventing anticompetitive behavior including price squeezes.

Finally, if the FCC decides that the DSL tariffs should be filed with the FCC, it should reconfirm that ILECs are required to allow their competitors to resell DSL service at a discount. Section 251(c)(4) of the Communications Act imposes on ILECs "The duty (A) to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers." 47 U.S.C. Sec. 251(c)(4). In the 706 Order, the Commission stated that "incumbent LECs have the obligation to offer for resale, pursuant to section 251(c)(4), all advanced services that they generally provide to subscribers who are not telecommunications carriers." ADSL service is provided to information service providers, which, under the Act, are not telecommunications carriers, and therefore falls under the rule established by the Commission. The Commission should clarify that the DSL service at issue in this tariff is subject to the resale requirement when provided by an ILEC and require the ILECs to file within 30 days a wholesale tariff that incorporates that discount.

NorthPoint understands that the FCC has not designated pricing issues in this investigation. The FCC should not, however, make a decision on the jurisdictional issues without a framework for resolving the significant pricing and other issues raised by this tariff. Rather, the FCC should decide the jurisdictional question in a way that

supports the end game, which is to prevent price squeezes and other anticompetitive behavior by ILECs, in order to give the competitive forces a chance to work for consumers.

Respectfully submitted,

A handwritten signature in cursive script that reads "Steven Gorosh/km".

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